

UNITED SECURITY BANCSHARES
Form 10-Q
August 16, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .

Commission file number: 000-32987

UNITED SECURITY BANCSHARES
(Exact name of registrant as specified in its charter)

CALIFORNIA
(State or other jurisdiction of
incorporation or organization)

91-2112732
(I.R.S. Employer
Identification No.)

2126 Inyo Street, Fresno, California
(Address of principal executive offices)

93721
(Zip Code)

Registrants telephone number, including area code (559) 248-4943

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Aggregate market value of the Common Stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter - June 30, 2010: \$32,434,746

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value

(Title of Class)

Shares outstanding as of July 31, 2010: 12,747,642

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PART I. Financial Information

United Security Bancshares and Subsidiaries
 Consolidated Balance Sheets – (unaudited)
 June 30, 2010 and December 31, 2009

(in thousands except shares)	June 30, 2010	December 31, 2009
Assets		
Cash and due from banks	\$ 38,886	\$ 17,644
Federal funds sold	40,665	11,585
Cash and cash equivalents	79,551	29,229
Interest-bearing deposits in other banks	1,480	3,313
Investment securities available for sale (at fair value)	59,796	71,411
Loans and leases	495,199	508,573
Unearned fees	(737)	(865)
Allowance for credit losses	(12,057)	(15,016)
Net loans	482,405	492,692
Accrued interest receivable	2,277	2,497
Premises and equipment – net	12,822	13,296
Other real estate owned	32,810	36,217
Intangible assets	1,577	2,034
Goodwill	5,977	7,391
Cash surrender value of life insurance	15,228	14,972
Investment in limited partnership	2,062	2,274
Deferred income taxes - net	6,484	7,534
Other assets	9,085	9,708
Total assets	\$ 711,554	\$ 692,568
Liabilities & Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	\$ 123,630	\$ 139,724
Interest bearing	460,127	421,936
Total deposits	583,757	561,660
Other borrowings	37,000	40,000
Accrued interest payable	234	376
Accounts payable and other liabilities	2,412	3,995
Junior subordinated debentures (at fair value)	10,209	10,716
Total liabilities	633,612	616,747
Shareholders' Equity		
Common stock, no par value 20,000,000 shares authorized, 12,747,642 and 12,496,499 issued and outstanding, in 2010 and 2009, respectively	38,792	37,575
Retained earnings	40,259	40,499
Accumulated other comprehensive loss	(1,109)	(2,253)
Total shareholders' equity	77,942	75,821
Total liabilities and shareholders' equity	\$ 711,554	\$ 692,568

See notes to consolidated financial statements

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United Security Bancshares and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income

(In thousands except shares and EPS)	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest Income:				
Loans, including fees	\$ 7,769	\$ 7,476	\$ 15,309	\$ 15,543
Investment securities – AFS – taxable	717	1,114	1,570	2,304
Investment securities – AFS – nontaxable	14	14	29	29
Federal funds sold	7	0	15	0
Interest on deposits in other banks	10	37	20	77
Total interest income	8,517	8,641	16,943	17,953
Interest Expense:				
Interest on deposits	1,063	1,569	2,221	3,274
Interest on other borrowings	78	278	185	737
Total interest expense	1,141	1,847	2,406	4,011
Net Interest Income Before Provision for Credit Losses	7,376	6,794	14,537	13,942
Provision for Credit Losses	519	6,807	2,150	8,158
Net Interest Income	6,857	(13)	12,387	5,784
Noninterest Income:				
Customer service fees	1,016	1,019	1,964	2,008
Gain (loss) on sale of other real estate owned	164	(68)	108	(145)
Gain on sale of securities	70	0	70	0
Gain (loss) on fair value of financial liability	467	(46)	624	(105)
Gain on sale of loans	511	0	511	0
Shared appreciation income	0	14	0	23
Other	452	359	716	638
Total noninterest income	2,680	1,278	3,993	2,419
Noninterest Expense:				
Salaries and employee benefits	2,107	2,063	4,388	4,286
Occupancy expense	961	939	1,874	1,881
Data processing	13	23	32	65
Professional fees	632	411	1,019	811
FDIC/DFI insurance assessments	515	470	906	616
Director fees	60	62	117	128
Amortization of intangibles	198	223	401	451
Correspondent bank service charges	82	101	158	208
Impairment loss on core deposit intangible	0	0	57	57
Impairment loss on goodwill	1,414	3,026	1,414	3,026
Impairment loss on investment securities (cumulative total other-than-temporary loss of \$3.6 million, net of \$3.1 million recognized in other comprehensive loss, pre-tax)	458	240	702	403
Impairment loss on OREO	405	337	1,226	503
Loss on California tax credit partnership	106	107	212	214
OREO expense	485	538	767	843
Other	612	555	1,100	1,272
Total noninterest expense	8,048	9,095	14,373	14,764
Income (Loss) Before Taxes on Income	1,489	(7,830)	2,007	(6,561)

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Provision for Taxes on Income	974	(2,104)	1,050	(1,756)
Net Income (Loss)	\$ 515	\$ (5,726)	\$ 957	\$ (4,805)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on available for sale securities, and past service costs of employee benefit plans – net income tax expense (benefit) of \$385, \$(85), \$763 and \$(574)				
	578	(128)	1,145	(861)
Comprehensive Income (Loss)	\$ 1,093	\$ (5,854)	\$ 2,102	\$ (5,666)
Net Income (Loss) per common share				
Basic	\$ 0.04	\$ (0.45)	\$ 0.08	\$ (0.38)
Diluted	\$ 0.04	\$ (0.45)	\$ 0.08	\$ (0.38)
Shares on which net income per common shares were based				
Basic	12,747,642	12,621,452	12,747,642	12,747,642
Diluted	12,747,642	12,621,452	12,747,642	12,747,642

See notes to consolidated financial statements

United Security Bancshares and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Periods Ended June 30, 2010 (unaudited)

(In thousands except shares)	Common stock Number of Shares	Common stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2009	12,010,372	\$ 34,811	\$ 47,722	\$ (2,923)	\$ 79,610
Net changes in unrealized loss on available for sale securities (net of income tax benefit of \$574)				(861)	(861)
Dividends on common stock (cash-in-lieu)			(6)		(6)
Repurchase and cancellation of common shares	(488)	(4)			(4)
Common stock dividends	240,410	1,493	(1,493)		0
Other		35			35
Stock-based compensation expense		27			27
Net Income			(4,805)		(4,805)
Balance June 30, 2009	12,250,294	36,362	41,418	(3,784)	73,996
Net changes in unrealized loss on available for sale securities (net of income tax expense of \$1,131)				1,696	1,696
Net changes in unrecognized past service Cost on employee benefit plans (net of income tax benefit of \$116)				(165)	(165)
Common stock dividends	249,205	1,187	(1,187)		0
Stock-based compensation expense		26			26
Net Income			268		